

**City of Minneapolis
2012 Budget
Financial Plan**

Fleet Services Division Fund

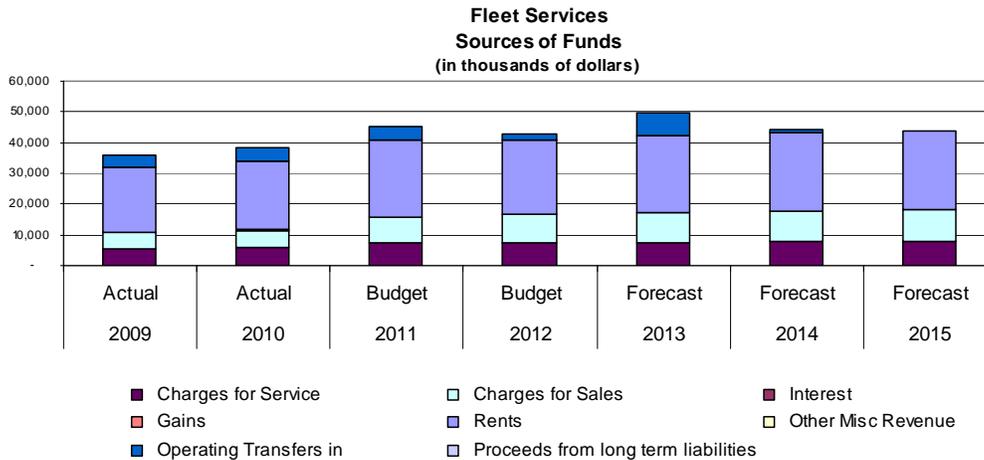
Background

The Fleet Services Division Fund manages the acquisition, maintenance and disposal of 1300 units of equipment; primarily the City's fleet of vehicles, including police cars, fire trucks, snow plows, sedans and pickup trucks along with off road equipment. This fund provides technicians to maintain the equipment as well as the drivers and operators for the equipment that is used in construction and snow removal. In addition, the fund manages the dispatch of City-owned and contractual equipment. The City's fleet of vehicles and equipment has an acquisition value of \$65.5 million and accounts for 48.3% of the net value of the long-term assets in this fund.

Historical Financial Performance

In 2000, the fund had a deficit cash position of \$17.8 million due to costs of operation exceeding revenues collected from City departments. A long-term financial plan was developed in 2001 to generate sufficient revenue to cover the full cost of operations. The fund maintained a positive cash balance through 2010 with the exception of the year ending 2008 when the cash balance was a deficit of \$49,000. The fund's 2010 year-end net asset balance of \$30.6 million represents an increase of \$4.1 million in net assets from the 2009 balance of \$26.5 million. The long-term financial plan projected a 2010 net asset balance of \$30.2 million. In 2010, a cash reserve policy was established for internal service funds directing the funds to maintain a minimum cash balance of 15% of the operating budget. The target cash reserve balance for this fund is \$4.3 million to be attained by year end 2013.

The original long-term financial plan financed fleet purchases by issuing general obligation bonds. Upgrading the fleet reduced the average age of the fleet, reducing maintenance costs in the fund. The fund continues to follow the plan to maintain a positive cash balance, increase net assets, and to end its reliance on bonds to fund the fleet purchases. In 2006, the practice of issuing bonds to finance fleet replacement was discontinued.

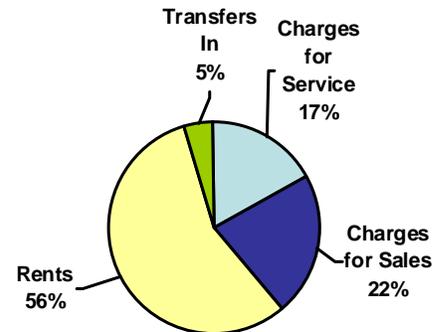


2012 Budget

Revenue

The Fleet Services Division uses activity-based costing to bill internal customers for use of vehicles. This method establishes a fleet rental rate that covers the replacement cost of the vehicles after the useful life. Maintenance, repairs and fuel costs of the fleet are charged separately. These charges are billed at a rate that allows the Fleet Services Division to match revenue to expense. Total revenues for 2012 are budgeted at \$43.0 million, a decrease of 7.8% from the 2011 projected revenue of \$46.6 million. The decrease in projected revenue is due primarily to a decrease in the general fund transfer from \$4.3 million in 2011 to \$1.9 million in 2012 as part of the previously adopted schedule. An increase of 8.4% in revenue earned from sales, primarily from the sale of fuel, is projected in 2012.

Source of Revenue (\$43.0 million)



Expense

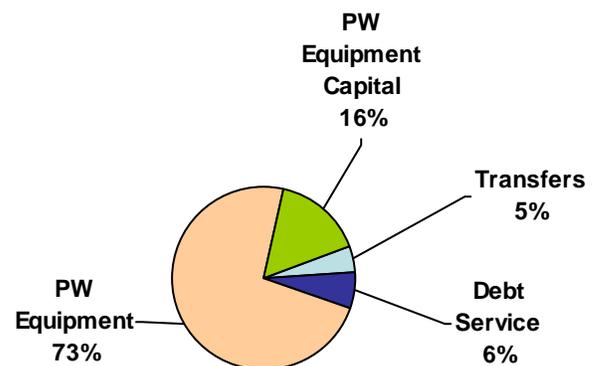
The 2012 expense budget is \$48.9 million which represents an increase of 13.9% from the 2011 projected expense of \$42.9 million. The increase in expense is primarily due to an increase in capital spending for fleet replacement, from \$5.0 million in 2011 to \$7.9 million in 2012. The current plan is for 60 vehicles to be purchased to replace existing fleet.

Revenue Assumptions (2012)	
Number of vehicles serviced	1200
Number of vehicles purchased	60

Transfers

The 2012 budget includes a transfer out of \$2.2 million for debt service related to the Minneapolis Employees Retirement Fund (MERF) unfunded liability to retire bonds related to this debt service in 2012. This one-time large increase to this debt payment for the proprietary funds results in substantial savings to the City. The Fleet Services Division will use fund balance as a revenue source for this payment and will recover the cost of the payment through the Fleet allocation model for years 2012 through 2014.

Use of Funds (\$48.9 million)

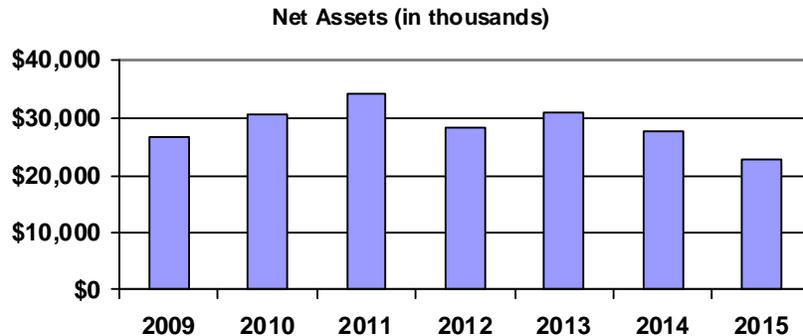


Debt Service

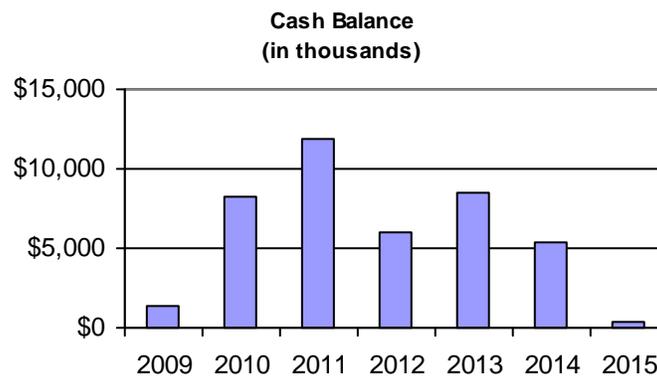
As part of the fleet modernization effort that began in 1997, the City issued bonds to finance fleet upgrades and to build new maintenance facilities. In 2010, the City issued \$22.3 million of refunding bonds to refinance current debt at a lower interest rate. Principal and interest payments totaling \$3.0 million are due in 2012 related to these bonds.

Net Assets

A primary objective of the long-term financial plan is to increase the fund's net assets and the cash balance. The fund has steadily increased its net asset balance since 2003 when the financial plan was first implemented. The net asset balance at year-end 2010 was \$30.6 million, an increase of \$4.1 million from the 2009 ending balance of \$26.5 million. The financial policy for the Fleet Services Division net asset balance states that the value of net assets should not fall below two times the annual depreciation amount. The annual depreciation for Fleet Services in 2010 was \$6.5 million. The 2010 balance of \$30.6 million is \$17.6 million greater than the benchmark amount. The 2011 projected balance is \$34.3 million.



The 2010 ending cash balance of \$8.2 million is an increase of \$6.8 million from the 2009 ending balance of \$1.4 million. The target cash balance for 2010 as determined by the cash reserve policy is \$2.1 million. The 2011 projected balance is \$11.9 million. The following chart illustrates the historical and projected cash performance of the fund:



Mayor's Recommended Budget

The Mayor recommended a modification to the 2011 Adopted transfer schedule from the General Fund in order to create capacity in those years which will keep property tax levy increases lower. The Mayor proposed the 2013 transfer to be \$7.186 million and the 2014 transfer to be \$1.129 million (the previously adopted plan was \$7.488 million in 2013 and \$827,000 in 2014).

Council Adopted Budget

The Council adopted the Mayor's recommendations.

**City of Minneapolis
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Fleet Services Divison - 06100

	2009	2010	2011	2011	2012	% Chg	2013	2014	2015
	Actual	Actual	Budget	Projected	Budget	From 2011 Projected	Forecast	Forecast	Forecast
Source of Funds:									
Charges for Service	5,608	5,850	7,446	7,600	7,346	-3.3%	7,566	7,793	8,027
Charges for Sales	5,274	5,586	8,252	8,500	9,218	8.4%	9,495	9,779	10,073
Gains	59	169	200	150	200	33.3%	200	200	200
Rents	20,781	22,378	24,789	26,000	24,254	-6.7%	24,982	25,731	25,603
Other Misc Revenue	119	136	30	25	10	-60.0%	10	10	10
Operating Transfers in	4,180	4,180	4,299	4,299	1,926	-55.2%	7,186	1,129	-
Total	36,021	38,299	45,016	46,574	42,954	-7.8%	49,439	44,643	43,913
Use of Funds:									
Debt Service	3,367	3,590	2,996	2,996	3,010	0.5%	3,011	2,911	2,752
Transfers	502	581	923	923	2,222	140.7%	-	-	-
PW Equipment	25,280	25,687	35,886	34,000	35,745	5.1%	36,843	37,944	39,079
PW Equipment Capital	5,454	1,687	4,500	5,000	7,909	58.2%	7,000	7,000	7,000
Total	34,603	31,545	44,305	42,919	48,886	13.9%	46,854	47,855	48,831
Change in Net Assets	2,764	4,060	711	3,655	(5,932)		2,585	(3,212)	(4,918)
Net Assets	26,548	30,608	31,319	34,263	28,331		30,916	27,704	22,785
Cash Balance	1,377	8,235	8,946	11,890	5,958		8,543	5,331	412
Target Cash Reserve¹	1,377	2,108	2,838	2,838	3,569		4,300	4,300	4,300
Variance Cash to Target Cash Reserve	-	6,127	6,108	9,052	2,389		4,243	1,031	(3,888)

¹ The target cash reserve policy for internal services establishes a minimum cash balance at 15% of the operating budget. The reserve amounts were determined April 2010.